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Livestock, Dairy, and Poultry Outlook

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2005 Turkey Production Increases After 2 Years Of Declines

NOTE: Due to uncertainties as to the length of bans on trade in ruminants and ruminant products because of the discovery of BSE in the United States and Canada, forecasts for 2005 and 2006 assume a continuation of policies currently in place among U.S. trading partners. Subsequent forecasts will reflect any announced changes.

Poultry: Turkey production in 2005 is forecast at 5.5 billion pounds, a small increase after year-over-year declines in 2003 and 2004. Turkey production is also expected to increase 1 percent in 2006, largely in response to higher 2005 prices for most turkey products. Fourth-quarter prices of turkeys (8-16 lb, hens, Eastern region) are expected to range between 79 and 81 cents per pound. Turkey prices for the year will likely be about 73 cents per pound, an increase of 3 cents from 2004.

Avian Influenza: This special section contains a set of basic background information to assist readers in navigating general media and industry discussions of the disease.

Cattle/Beef: Supplies of high quality beef remain tight, and Choice boxed prices were well above year-earlier levels in October. Steer and heifer slaughter weights remain near record levels, but the low proportion of cattle grading Choice and Prime raises issues concerning feeding regimes, including the rapidly expanding use of wet distillers' grains in feedlot rations. The cattle and beef sector continues its recent pattern of solid domestic retail markets, breakeven to negative margins for wholesale and cattle feeding sectors, and strong demand for feeder cattle and calves. Beef export trade continues to creep upward, but is well below levels observed prior to the BSE discovery on December 23, 2003.

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Tables will be released on November 29, 2005.

The next newsletter release is December 16, 2005

Approved by the World Agricultural Outlook

Foot-and-Mouth Disease in Brazil: Export Impacts of the October 2005 Outbreak: The announcement on October 8, 2005, of an outbreak of foot-and-mouth disease (FMD) in Brazil's important beef producing state of Mato Grosso do Sul (MGS) raised concerns over adjustments that will likely become necessary in global meat markets due to Brazil's status as the world's largest beef and poultry exporter and third-largest pork exporter.

Dairy: Heavy milk supplies have eroded butter and cheese prices since mid-September, despite brisk sales and moderate stocks. Price declines were fairly steady through October, with attempted reversals not sustained for any amount of time. The full weight of growing milk supplies probably will be felt after holiday needs are met. Supplies are expected to overcome fairly good demand and lower dairy product prices. Even so, prices are projected to remain relatively robust through the winter and will set the tone for dairy markets during the rest of 2006.

Sheep/Lamb: With the seasonal increase in demand for fourth-quarter 2005, quarterly production is expected to exceed 50 million pounds, which would be the largest quarterly production this year. With improved weather conditions and increased ewe-lamb retention for the past 3 years, it is expected that domestic production will continue to increase during the fourth quarter and continue through 2006.

Hogs/Pork: Fourth-quarter pork production is expected to be slightly more than 2 percent above the same period a year ago, with prices for 51-52 percent lean live equivalent hogs between $43 and $45 per hundredweight (cwt) for the quarter. For the year, 2005 production is expected to be 1 percent above last year. Third-quarter exports were almost 29 percent higher than a year ago; on a cumulated basis, exports are running almost 26 percent ahead of the first three-quarters of 2004. Pork imports in the first three-quarters of 2005 were more than 11 percent below the same time last year. January-September 2005 live swine imports were almost 7 percent lower than the same period last year.

Poultry

2005 Turkey Production Increases After 2 Years of Declines

Overall turkey production for 2005 is forecast at 5.5 billion pounds, a small increase after year-over-year declines in 2003 and 2004. Federally inspected slaughter in the fourth quarter of 2005 is forecast at 1.41 billion pounds, up slightly from the same period in 2004. U.S. turkey production in the third quarter of 2005 was 1.375 billion pounds, down 1.1 percent from the same period in 2004. The decrease in production was due to fewer birds slaughtered (down 3.4 percent) even as the average live weight per bird at slaughter was 27.1 pounds, 2.1 percent higher than in the same period last year. Turkey production is also expected to increase slightly in 2006 in response to higher prices for most turkey products throughout most of 2005.

Third-Quarter Ending Stocks Lower

The third-quarter production decline combined with gains in exports, pulled third-quarter ending stocks down. Cold storage holdings of whole turkeys at the end of September were estimated at 279 million pounds, down 3.7 percent from a year earlier, and holdings of turkey parts were also lower. Stocks of turkey parts were estimated at 214 million pounds, down 9.6 percent from a year earlier. Total third-quarter ending stocks for turkey were 494 million pounds, down 33 million pounds (6 percent) from a year earlier.

Turkey Prices Expected To Remain Higher

The combined effects of lower domestic turkey meat production, stronger exports, and falling stock levels have pushed whole turkey prices higher over the past several months. The Eastern region price for whole hens in October was 82.4 cents per pound, up 7 percent (about 5 cents) from a year earlier. Both whole bird and turkey parts prices are expected to remain above their year-earlier levels through the Thanksgiving period then decline seasonally, but remain above year-earlier prices. With continued slow growth in production and higher exports, turkey prices through the first half of 2006 are expected to remain near 2005 levels through the first half of 2006.

Turkey Exports Remain Firm in Third Quarter

Turkey exports totaled 52 million pounds in September, up 11 percent from September 2004. Third-quarter 2005 turkey exports were 147 million pounds, up 10 percent from last year. The increases are largely due to increases in Mexican and Canadian import demand for U.S. turkey meat.

Broiler Production Forecast Higher in Fourth Quarter

U.S. broiler meat production in the third quarter of 2005 was 8.93 billion pounds, 1 percent above a year earlier. The slight growth in production was due to a 0.8-percent increase in the average liveweight to 5.32 pounds, offsetting a 0.2-percent decrease in the number of birds slaughtered. Fourth-quarter federally inspected meat production is forecast at 8.75 billion pounds, 2.5 percent above a year ago.

Increased fourth-quarter production is expected to come from a higher number of birds slaughtered and higher average weights.

Since the beginning of October, the weekly *Broiler Hatchery* report (http://usda.mannlib.cornell.edu/reports/nassr/poultry/pbh-bb/) has shown an upswing in the year-over-year growth in the number of chicks placed for grow-out. And, over the last 5 weeks (October 8 through November 5), the number of broiler chicks placed for grow out has averaged 2.4 percent higher than in the same period in 2004. The number of eggs placed in incubators for hatching over the last 3 weeks points toward continued strong growth in broiler chick placements, as it has averaged 3.2 percent higher than a year earlier. The number of chicks being placed for grow-out is expected to average above last year through the remainder of 2005, indicating higher production through the first part of 2006. Broiler meat production for 2006 is forecast at 36.3 billion pounds, up 3.2 percent from 2005.

Third-Quarter Broiler Ending Stocks Lower

The slow growth in broiler meat production and higher exports in third-quarter 2005 compared with the previous year have pushed ending third-quarter stocks of broiler products below those of a year ago. Broiler stocks held in cold storage at the end of September were 735 million pounds, down 39 million pounds from the end of third-quarter 2004. However, the ending stocks for the third quarter were 48 million pounds higher than at the end of the second quarter, mostly due to higher stocks of breast meat and wings. These increases in stocks were partially offset by declines in the cold storage holdings for whole birds, thighs, and thigh meat.

An increase in the percentage of broilers in the highest weight class (averaging around 6.35 pounds over the past several weeks) has increased the total proportion of broilers being cut up for parts. This in turn has put downward pressure on prices of such cuts as boneless/skinless breasts. October 2005 prices in the Northeast market for boneless/skinless breast meat were $1.17 per pound, down 10 percent from a year earlier and down nearly 24 cents per pound since July. With a strong export market, prices for leg quarters averaged nearly 46 cents per pound in October, an increase of over 50 percent from a year ago. However, over the last several weeks, prices for leg quarters have declined as the spread of AI to countries such as Turkey and Romania has created uncertainties about the strength of future exports to such areas as Eastern Europe, the Middle East, and Central Asia.

Broiler Exports Up in Third Quarter

Although broiler exports for September 2005 were down 21 percent from September of last year, third-quarter 2005 broiler exports were 1.315 billion pounds, up 4 percent from the same period last year. The reduction in U.S. broiler exports in September was largely attributable to interruptions in exports to Russia, due to the effects of hurricane Katrina. Because of the damage to gulf port facilities, Russia required port facility re-inspection before U.S. poultry exports to Russia could resume. Hurricane damage to gulf port facilities, plus hurricane-related regional transportation difficulties, caused U.S. broiler exports to fall by 65 percent from August to September.

Avian Influenza

Avian Influenza: Basic Background and Definitions

• There are three basic types of influenzas that impact humans: A, B, and C. Types B and C are normally found only in humans, and type C influenzas are usually mild. Type A influenzas are found in a number of species, including humans, and are the most likely to cause severe human health problems.

• Avian influenza (AI) is caused by a Type A influenza virus. AI ranges from a mild, or even asymptomatic infection, to an acute, fatal disease of chickens, turkeys, guinea fowls, and other avian species, especially migratory waterfowl. The AI viruses are also classified into low pathogenic and highly pathogenic forms based on the severity of the illness they cause in poultry.

• Type A influenzas are identified according to two different surface proteins, hemagglutinin (H) and neuraminidase (N), which have 16 (H1 – H16) and 9 (N1 – N9) subtypes respectively. The AI strain called H5N1 has been the focus of recent attention. It is often a high pathogenic form of AI that can cause massive flock losses. And, this strain of AI has been found to be deadly to a number of other species besides birds. Wild birds, especially wild waterfowl, can act as a reservoir for the disease, spreading it along their migration routes. Finally, this form of AI can be transmitted to humans under certain conditions.

• During late 2003 and early 2004, outbreaks of highly pathogenic avian influenza A (H5N1) occurred among poultry in eight countries in Asia: Cambodia, China, Indonesia, Japan, Laos, South Korea, Thailand, and Vietnam. At that time, more than 100 million birds either died from the disease or were destroyed in an attempt to prevent further spread of the disease.

• From mid-2004 to the present, H5N1 outbreaks in poultry continue to spread. Through October 28, 2005, the World Health Organization (WHO) reported H5N1 outbreaks in China, Indonesia, Thailand, Vietnam, Malaysia, Russia, Kazakhstan, Turkey, Romania, and Greece. The Ministry of Agriculture of Indonesia states that as of March 2005, over 16 million birds had died or were slaughtered in that country's current outbreak.

• The WHO reports that human cases of H5N1 have occurred in Cambodia, Indonesia, Thailand, and Vietnam. The infection carries a high mortality rate.

• The impact of an AI outbreak depends on the specific situation of the country where it occurs. Poultry production may fall because of bird mortality from the disease and culling flocks for containment purposes. Other factors may include: extent and duration of the outbreak, trade disruptions, public reaction, and changes in domestic consumption.

• The United States has not had a major outbreak of highly pathogenic avian influenza since 1986. In 2004, however, USDA's Animal and Plant Health Inspection Service detected and successfully contained a localized highly pathogenic H5N2 outbreak in one poultry flock in Texas.

• In early 2004, there were occurrences of low pathogenic avian influenza in the eastern United States and an outbreak occurred in the Shenandoah Valley of Virginia in 2002. Canada also had an outbreak of highly-pathogenic AI (H7N3) in 2004. All outbreaks in the U.S. and Canada were successfully contained and had little impact on overall U.S. broiler production.

• For further detailed information and updates, go to
http://www.aphis.usda.gov/newsroom/hot_issues/avian_influenza.shtml
http://www.who.int/en/
http://www.cdc.gov/flu/pandemic.htm
http://www.oie.int/eng/en_index.htm

Higher Quality Beef Supplies Remain Tight

Choice boxed beef prices are well above year-earlier levels as supplies of high-quality beef remains tight. In September and October the proportion of steers and heifers grading Choice and higher was near 54 percent, well below the near 55 to 56 percentage range of a year earlier. The present situation is similar to the same period in 2003 when fed cattle marketings were being pulled forward to compensate for the loss of Canadian cattle imports due to the first case of BSE in Canada in May 2003. The proportion of cattle grading Choice and higher has dropped sharply over the past couple of months and stabilized near 54 percent in the later half of October. Seasonally, the proportion grading Choice and higher should begin to rise. The market continues to shift toward more demand for higher grading, consistent quality beef, and given the continued wide Choice/Select spread, appears willing to pay the premium for Choice beef. The spread in October was ranging over $13 per cwt, well above the 5-year average and over $8 per cwt above a year ago. The real question is why can't we get more cattle to grade Choice and higher?

Grading Issues Explored

Numerous reasons have been discussed recently as to the culprit in the grading proportion shortfall in cattle grading Choice and higher. Although temperatures have been warm this fall with the usual temperature variation, moisture levels are down and feeding conditions do not appear the likely cause of the shortfall. Steer and heifer slaughter weights are continuing at record levels in late October. However, a number of issues are possible factors and could be at least contributing. Heavier placement weights for much of this year may create a grading problem because of their inherent tendency to grow rather than finish. But while the weights are heavier the impact is likely to be more as a marginal contributor rather than the main problem. The last couple of quarterly *Cattle on Feed* reports indicate heifers continue to comprise a smaller proportion of the cattle on feed inventory. The July 1 *Cattle on Feed* report indicated the number of heifers on feed were 4.6 percent below a year earlier, the October 1 report indicated a drop of 10.6 percent. Consequently, heifers are making up a smaller share of total slaughter than in 2004 or 2003 (see figure), and the reduced share of heifers in the steer/heifer slaughter mix are likely a contributing factor in lower grading wholesale beef because of heifers' slightly higher propensity to grade. Again fewer heifers in the slaughter mix is a cyclical fact, but is likely only a marginal issue on the grading problem. Another concern that has come up over the years is the protein levels in rations. Excessive protein rations tend to result in growth, while higher carbohydrate rations favor higher fat placement and finishing. There is also the consideration that fed cattle are being marketed ahead of schedule and before reaching their full market finish potential, which seems counterintuitive given the low grain prices, negative profits, and lack of sufficient numbers of Choice cattle. An apparent single issue has not materialized, and may not.

Given the premiums on higher grading beef and the wealth of information available through nutritionists, feedlot management, and the research community, adjustments are likely being made to achieve higher grades. Unfortunately some end users are being forced to switch to lower grading, less consistent beef or to other relatively less expensive meats. Such substitutions may result in problems of

"buying back" users as the supplies of higher quality beef increase. Progress on negotiations to re-enter the Asian market, and already relatively expensive U.S. beef, particularly compared with 2003 and earlier periods, make increasing the proportion grading Choice and higher even more important and likely even more profitable.

Feedlot Margins Remain Negative

Fed cattle prices in October were averaging in the upper $87.40 per cwt, up from $84.03 a year ago. Feed prices remain favorably low, but yearling feeder cattle prices continue strong, resulting in cattle feeders still not breaking even. At the same time, packer competition for the reduced supply of higher grading slaughter cattle is keeping their margins in the red. Cow calf operators continue to be the most profitable sector of the cattle industry, but at the expense of the other sectors. Although the expansion phase of the cattle cycle is well underway, it will still be in the second half of 2007 at the earliest before beef supplies begin to rise cyclically.

Cow-Calf-Feeder Sectors Strong

The cow-calf-yearling sector continues to be the strongest sector of the beef industry. While down from spring 2005 record highs, calf prices remain historically high, about 4 percent above year-earlier levels and almost 20 percent above October-November 2003 levels. Stocker-feeder cattle supplies outside feedlots, although slightly above year-earlier levels, remain cyclically low with strong demand for the tight supplies from both the stocker cattle and cattle feeding sectors. Fall and over-wintering forage conditions appear adequate in most areas for the reduced cattle inventory.

Wheat pasture conditions in mid-November in the High Plains winter grazing area appear near to somewhat above the favorable conditions of last year, although conditions in Texas are less favorable. Unfortunately, the grazing potential appears poor. The percentage of the wheat crop emerged in Kansas and Oklahoma was well above a year earlier and the 5-year average in mid-November, although conditions in Texas were below average. The Kansas crop was rated 94 percent fair or better, while the Oklahoma crop was rated 88 percent. The Texas crop was only rated 70 percent fair or better. Unfortunately, the overall grazing prospects on the winter wheat crop is marginal at best with dry conditions over the past 6 weeks sharply reducing crop growth and grazing prospects. Stocker/feeder cattle prices continue strong as feed prices remain very favorable. Feeder cattle prices for Oklahoma City, 750- to 800-pound, medium number 1 and 2 steers, are about $2 to $4 per cwt higher than a year earlier, while 500 to 550 pound calves are averaging $8 to $10 per cwt higher.

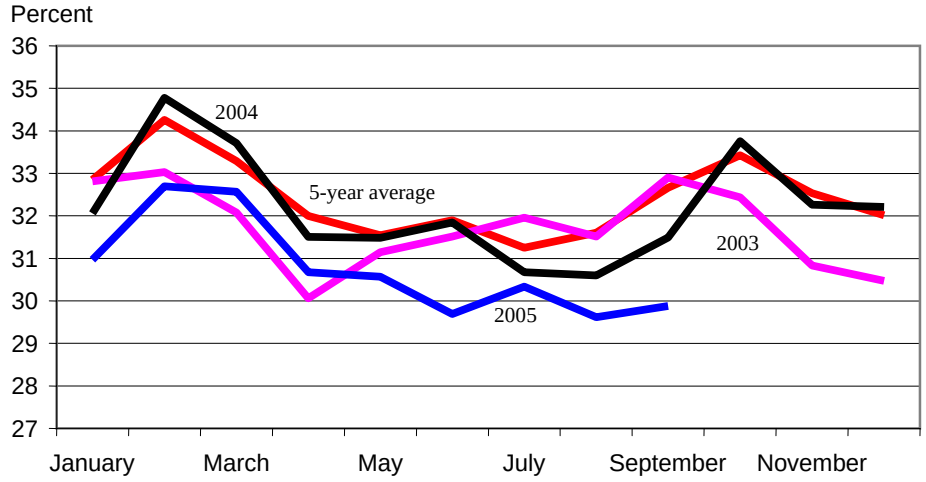
Cattle slaughter is running slightly behind year-earlier levels, just under 2 percent below 2004, but beef production is only fractionally behind year-earlier levels. Average weights for October 2005 are about 8 pounds higher than October 2004, in part due to the lower proportion of heifers in the slaughter mix. Both steer and heifer weights are averaging well above year-earlier levels. Cow slaughter has begun to rise seasonally, but remains well below year-earlier levels, particularly for beef cow slaughter. Although U.S. imports of slaughter cattle from Canada continue to increase, a slower pace of fed cattle imports and a somewhat slower

marketing pace from U.S. feedlots have resulted in a pullback in fourth-quarter beef production estimates, even as slaughter weights remain near record levels.

Retail Choice Beef Prices Remain Strong

Retail prices for Choice beef remained strong in October, averaging $3.98 a pound, down about 1 percent from a year ago. The wholesale-to-retail spread has narrowed steadily since May. The farm-to-wholesale spread has widened, but remains historically low. Although retail beef prices are down from the record levels of the past 2 years, prices remain historically high. Competition from turkey, ham, and other meats will have some negative impact on the relatively more expensive beef cuts, as the holidays approach; the price of pork is down nearly 4 percent from a year earlier, but prices remain strong as export demand continues to climb.

Heifer share of slaughter



Source: USDA/NASS *Livestock Slaughter*.

Beef Trade

Cattle Imports From Canada Grew Steadily in the Third Quarter

Third-quarter cattle imports totaled 341,834 head, as imports from Canada grew steadily following their resumption in July. U.S.-Canada cattle price differentials have become fairly stable after narrowing considerably as trade resumed, but they have stabilized at levels several dollars higher than seen in pre-BSE days. Prices for slaughter steers in Alberta were typically US$3-5 less than the Nebraska direct slaughter steer price prior to May 2003, while now this price difference is in the US$13-15 range. Higher fuel prices could account for as much as $2 of the price spread on a live hundredweight basis, but the rest of the difference represents other aspects of transportation and inspection costs, and manifold other factors.

A significant portion of the Canadian cattle–over 40 percent–have been feeder cattle, reflecting fall placement of weaned spring calves. This pattern should continue through most of the fourth quarter. Mid-summer concerns about Midwestern drought and potentially higher corn prices have been long abated as the U.S. corn crop came in relatively large and feed costs appear more favorable to cattle feeders. Cattle imports from Mexico displayed a normal seasonal pattern, with a trough in the summer months and a rebound in the fall, although the autumn rebound started a bit later this year. Good forage conditions in eastern Mexico, resulting from hurricane-related rainfall during part of this period, appeared to slow the movement of Mexican cattle. The cattle import forecast for 2006 shows an increase over 2005 totals, mainly reflecting a full 12 months of imports from Canada.

Third-Quarter Beef Imports Almost 4 Percent Lower Than Year Ago

Beef imports in the third quarter came in at 906 million pounds carcass weight equivalent. Imports dropped 60 million pounds from August to September, reflecting the apparent completion of rebuilding cold storage stocks which were drawn down earlier in the year in the midst of uncertainty about border openings.

The foot-and-mouth outbreak in Brazil is not expected to reduce U.S. imports, as Brazil can only send cooked products to the United States. In fact, restrictions implemented by several of Brazil's important foreign markets for fresh or frozen beef may shift more of their output into the processed product market while the animal disease concerns are being addressed (see the special section below, titled "Foot-and-Mouth Disease in Brazil: Export Impacts of the October 2005 Outbreak" for further background and information). Total U.S. beef imports are currently projected to be down marginally in 2006.

U.S. Beef Exports Steady to NAFTA Partners and Caribbean Markets

Beef exports totaled 150 million pounds carcass weight equivalent in the third quarter, with Mexico, Canada, and the Caribbean region remaining the primary destinations. Exports are not likely to grow substantially until major Asian markets are reopened. In Japan, the independent Food Safety Committee has issued a report indicating U.S. beef does not represent a significantly higher risk of BSE for consumers than Japanese beef, provided that U.S. beef comes from younger animals and is produced using proper precautions such as removal of specified risk

materials. The committee will receive comments on this report from the public through November 29, then review comments and send a report to the Ministry of Health, Labor and Welfare, and the Ministry of Agriculture, Forestry, and Fisheries. If the Committee maintains its current position after this comment period, new regulations for meat imports must still be issued by the government before beef trade may resume.

Foot-and-Mouth Disease in Brazil

Impacts of the October 2005 Outbreak of Foot-and-Mouth Disease in Brazil

The announcement on October 8, 2005, of an outbreak of foot-and-mouth disease (FMD) in Brazil's important beef producing state of Mato Grosso do Sul (MGS) raised concerns over adjustments that will likely become necessary in global meat markets due to Brazil's status as the world's largest beef and poultry exporter and third-largest pork exporter. To date, 50 countries have imposed restrictions on Brazilian beef and pork exports from MGS, with sales from two neighboring States—São Paulo and Paraná—also being affected (see map and table 1).

Mato Grosso do Sul (MGS), which shares its western border with Paraguay, is Brazil's largest cattle producing state, with over 19.8 million head (12 percent of the country's cattle herd) in 2004. It also accounts for the largest share of cattle slaughter in the country--16 percent (5.5 million head). The 2004 slaughter represents an increase of nearly 40 percent since 1995, highlighting the significant growth of the MGS cattle sector in the past 10 years. MGS was the second-largest beef exporting state of Brazil in 2004.

Prior to the outbreak, Brazil was forecast to export 1.9 million tons of beef in 2005, equivalent to 26 percent of global beef trade (FAS/USDA). Beef exports from January through September of this year were 30 percent higher than exports in the same period in 2004 and double the exports in January through September 2003. Current forecast projects Brazil's exports in 2005 and 2006 to be 1.8 million tons as beef exports are shifted to areas which are free of the disease. If outbreaks occur in other Brazilian States, trade losses for Brazil could be more significant, even with recognition of regionalization by world importers. Despite the trade reduction, Brazil will still remain a significant player in world beef markets (FAS/USDA).

Official controls to limit the spread of FMD in the country include notification to the World Organisation for Animal Health (OIE), banning the sale of meat and by-products in MGS, and setting up sanitary checkpoints throughout a 25-kilometer (16 mile) buffer zone around the site of the initial outbreak. The disruption in trade from the current outbreak is estimated by the Ministry of Agriculture, Livestock, and Food Supply (MAPA) to be as high as $2 billion in annual livestock sales. But the impact is likely to rise above that due to restrictions on commerce with neighbouring States that are beginning to affect other products, such as poultry, dairy, grains, and fruit.

More importantly, the recent outbreak represents a significant setback of the last decade's efforts by Brazil to gain access to the important consumer markets for fresh, chilled, and frozen beef and pork products of NAFTA members—the United States, Canada, and Mexico—as well as Japan, South Korea, and Taiwan. These countries had been restricting imports of fresh/frozen beef and pork products from Brazil due to its FMD disease status. The outbreak delays the evaluation of Brazil's request to export fresh beef and pork products to the United States.

Following the initial report of the outbreak in the municipality of Eldorado in MGS, government officials at the Department of Animal Health (DSA), and MAPA have reported 41 additional municipalities "at risk" for FMD. In early November 2005,

the industry gained some respite as DSA confirmed that Paraná state had tested negative for FMD. An outbreak in this state had been feared to put at further risk the key pork producing state of Santa Catarina the only state in Brazil recognized by the MAPA (but not the OIE) as free of FMD without vaccination.

Brazil's Efforts to Eradicate FMD

Since 1998, the Government of Brazil has actively implemented efforts to eradicate FMD under the National Program for FMD Eradication (Programa Nacional de Erradicação da Febre Aftosa - PNEFA). The objective of the program was to eradicate the disease by the end of 2005. To complement these efforts, and to gain a firmer foothold in international markets, Brazil began making efforts to improve meat safety in 2002 by creating a livestock traceability program SISBOV (Brazilian System of Identification and Certification of Origin for Cattle) to identify and document the origin of each animal slaughtered, its genetic make-up, the conditions under which it was raised, its feed, its environment, and the conditions of its slaughter.

Following the guidelines of the OIE and the WTO's sanitary and phytosanitary (SPS) agreement, Brazil divided its territory into five regional markets ("circuitos" in Portuguese) in an effort to manage sanitary controls more effectively. Prior to the October 2005 outbreak, OIE recognized the states of São Paulo, Paraná, Santa Catarina, Rio Grande Do Sul, Rio de Janeiro, Mato Grosso, Mato Grosso do Sul, Goiás, Minas Gerais, Espírito Santo, Distrito Federal, Tocantins, Bahia, Sergipe, Rondonia, and the State of Acre along with two adjacent municipalities of the Amazon state as being free of FMD, with vaccination.

Mato Grosso do Sul, in the Southern Circuito, had two previous outbreaks, in 1998 and in 1999, both confined to single municipalities. The extensive number of municipalities in the recent outbreak—42—poses a more difficult task for regaining sanitary control over the area as officials estimate that over 20,000 animals will be destroyed to contain the outbreak.

Recent Growth of Brazil's Beef/Cattle Sector: An Overview

Brazil's strong export performance in the last several years has created an industry generating over US$6.2 billion in exports of fresh, chilled, frozen, and prepared meats (GTIS data). The Brazilian cattle and beef industries have benefited from expansion into undeveloped and inexpensive pasture land, low production costs, rapid technological advancements, currency devaluations, and domestic and foreign investment to expand production capacity. With one of the world's largest commercial herds at 170 million head, Brazil is the second world's largest commercial beef producer–nearly 8.0 million tons in 2004 compared with 11.3 million tons in the United States. Total value of production in 2004 was US$21.7 billion, equivalent to 34 percent of Brazilian agribusiness gross income (Confederação da Agricultura e Pecuária do Brasil, CNA). Brazil's beef consumption is also significant. Brazil also represents the world's fourth-largest consumer market for beef (6.4 million tons in 2004) after the United States, the EU-25, and China, and the sixth-largest per capita beef consumer.

During the 2001-2003 period, Brazil was the fourth-largest beef exporter in terms of beef export value, and the third-largest beef exporter in terms of volume. In 2004, Brazil became the largest world beef exporter (by volume), surpassing Australia and the United States, with one-third in heat processed meats and two-thirds in frozen/chilled meats. Total Brazilian beef exports valued at US$2 billion in 2004 represented close to 12 percent of the total value of Brazil's agricultural exports. Major Brazilian markets for fresh/chilled/frozen meats last year included the EU-25 (US$761 million), Russia (US$239 million), Chile (US$199 million), Egypt (US$162 million), and Iran (US$102 million). Major markets for Brazilian processed meats were the EU-25 (US$267 million), and the United States (US$197 million), (GTIS data).

The cost to Brazil of the recent FMD outbreak is reflected not only in lost markets and reduced exports but in budgetary transfers that the current government can ill afford. MAPA has indicated that it will spend over R$150 million (US$62 million) of additional funds for the emergency program to fight the FMD outbreak in MGS and over R$300 million (US$125 million) to compensate affected producers. Constanza Valdes, *cvaldes@ers.usda.gov* USDA/ERS/MTED.

Table 1. Countries regionalizing meat/livestock products imports from Brazil

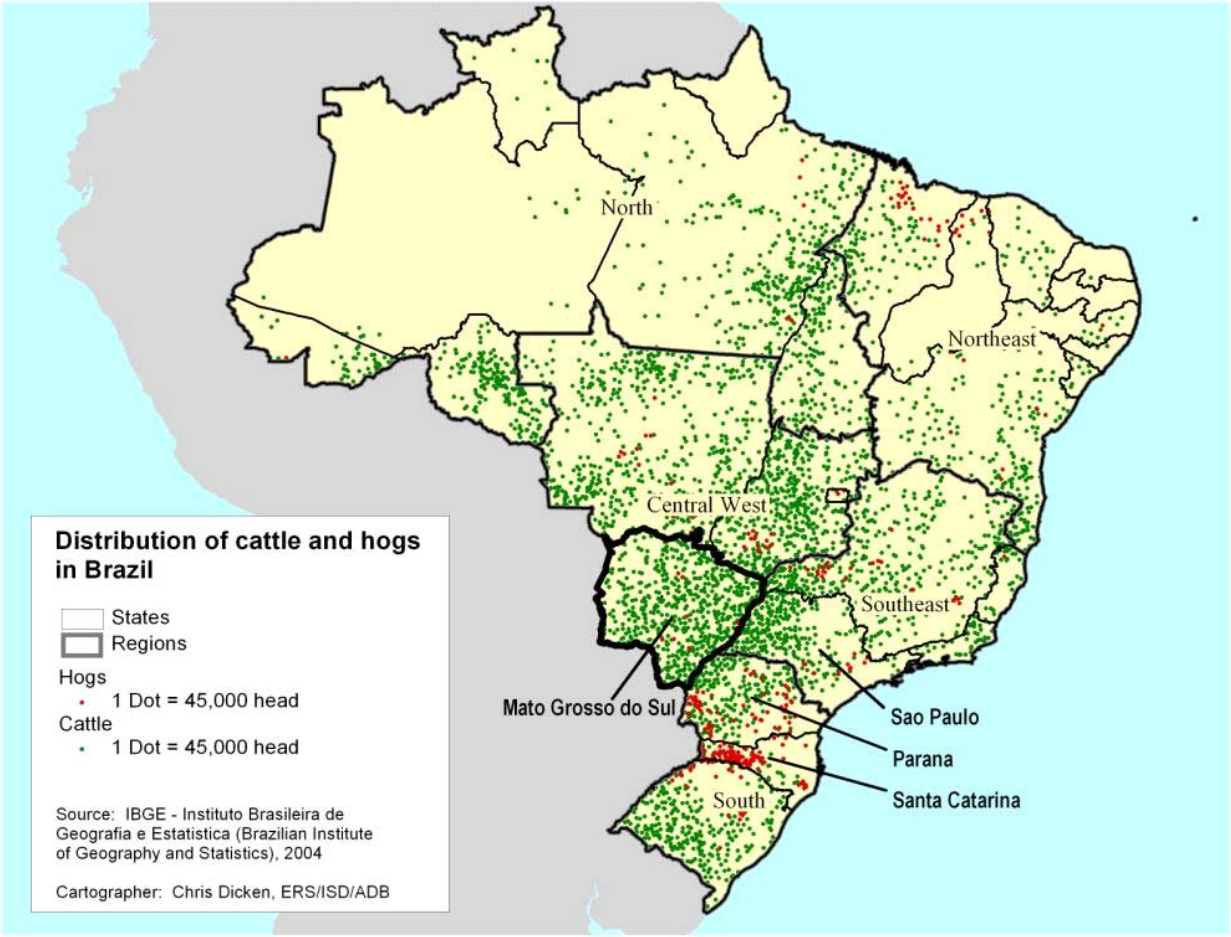
Country	Product	Area*	Market Share of Brazilian Beef, Pork and Poultry Exports (Jan.-Sept. 2005)
Angola	Beef	MGS, MT, GO, PR, SP and MG	Beef: 0.4%
Argentina	Beef, Pork	MGS	Beef: 0.0% Pork: 3.3%
Algeria	Beef, Pork	Brazil	Beef: 3.3% Port: 0.0%
Bolivia	Beef, Pork	MGS	Beef: 0.01% Pork: 0.0%
Bulgaria	Beef	MGS, PR	Beef:2.5%
Cape Verde	Beef	MGS, PR, SP	Beef: 0.02%
Chile	Beef	Brazil	Beef: 6.0%
Colombia	Beef, Pork	Brazil	Beef: 0.0% Pork: 0.01%
Cuba	Beef, Pork	Brazil	Beef: 0.07% Pork: 0.5%
Egypt	Beef	MGS	Beef: 9.1%
European Union (25 Countries)	Beef	MGS, PR, SP	Beef: 35.6%
Indonesia	Beef, Pork, Poultry, Dairy	Brazil	Beef:0.0% Pork: 0.0% Poultry: 0.0%
Israel	Beef	Brazil	Beef: 1.6%
Malaysia	Beef, Pork, Dairy	MGS, PR, SP	Beef: 0.3% Pork: 0.0%
South Africa	Beef, Pork	Brazil	Beef: 0.7% Pork: 3.4%
Namibia	Beef, Pork, Poultry	Brazil	Beef: 0.0% Pork: 0.0% Poultry: 0.0%
Norway	Beef	MGS, PR, SP	Beef: 0.3%
Paraguay	Beef, Pork	MGS	Beef: 0.01% Pork; 0.04%
Peru	Beef, Pork	Brazil	Beef: 0.03% Pork: 0.0%
Romania	Beef	MGS, PR, SP	Beef: 1.3%
Russia	Beef, Pork, Poultry, Dairy	MGS	Beef: 17.8% Pork: 69.5% Poultry: 8.3%
Singapore	Beef, Pork	MGS	Beef: 0.8% Pork: 2.3%
South Africa	Beef, Pork	Brazil	Beef: 0.7% Pork: 3.5%
Switzerland	Beef, Pork	MGS, PR, SP	Beef: 1.2% Pork: 0.01%
Ukraine	Beef, Pork, Poultry	PGS, PR	Beef: 0.9% Poultry: 0.3%
Uruguay	Beef, Pork	Brazil	Beef: 0.3%

* MGS (Mato Grosso do Sul); PR (Parana), Sao Paulo (SP), MT (Mato Grosso), GO (Goias), MG (Minas Gerais).
Source: Ministry of Agriculture, Livestock and Food Supply, Secretariat of International Relations to the Agribusiness, Department of Sanitary and Phitosanitary Affairs, Brasilia November 2005. GTIS Trade data.

Table 2. Beef exports by major exporters
1,000 metric tons 1/

	2001	2002	2003	2004	2005 (p)	2006 (f)
Brazil	748	881	1,175	1,628	1,800	1,800
Australia	1,399	1,366	1,264	1,394	1,470	1,480
Argentina	169	348	386	623	680	720
India	370	417	439	499	620	675
Canada	575	610	384	559	615	640
New Zealand	496	486	558	606	575	615
Uruguay	145	262	325	410	460	470
United States	1,029	1,110	1,142	209	285	290
European Union 2/	502	485	388	358	250	220
China, Peoples Republic of	60	44	43	61	75	90
Ukraine	98	181	202	108	85	90

1/ Carcass weight equivent. 2/ EU data includes 25 member states for all years.
(p) preliminary; (f) forecast.
Source: Livestock and Poultry: World Markets and Trade, November 2005. Dairy, Livestock and Poultry Division (DLP),Foreign Agricultural Service (FAS) U.S. Department of Agriculture (USDA).


North
Northeast
Central West
Southeast
South
Mato Grosso do Sul
Sao Paulo
Parana
Santa Catarina
Distribution of cattle and hogs in Brazil
States
Regions
Hogs
1 Dot = 45,000 head
Cattle
1 Dot = 45,000 head
Source: IBGE - Instituto Brasileira de Geografia e Estatistica (Brazilian Institute of Geography and Statistics), 2004
Cartographer: Chris Dicken, ERS/ISD/ADB

Dairy

Heavy Supplies Squeeze Butter and Cheese Prices

Heavy milk supplies have eroded butter and cheese prices since mid-September, despite brisk sales and moderate stocks. Price declines were fairly steady through October, with attempted reversals not sustained for any amount of time. Summer increases in milk production from a year earlier were in excess of 4 percent, and early autumn rises probably were at least as large. Recent price patterns are likely to continue through yearend, although temporary increases are always possible if holiday demand is enough to pinch seasonally tight supplies.

August-September cheese production grew more than 4 percent from a year earlier, with the largest gains in Mozzarella and some additional varieties other than Cheddar. This extra cheese was absorbed fairly easily as October 1 commercial stocks of all cheese were close to a year earlier. However, soaking up such large increases in output over an extended time without swelling pipeline holdings is unusual. Buyers also may have refrained from buying their late holiday season supplies in a slipping market. Prices on the Chicago Mercantile Exchange (CME) fell about 20 cents per pound between mid-September and mid-November. Steady to declining prices are likely during the rest of the year, although small bumps are possible if pipelines get drained alarmingly.

Patterns in the butter market were quite similar to cheese. Late summer production posted sizable increases from a year earlier. Commercial holdings on October 1 were still modestly below a year earlier, although weekly declines in the stocks reported to the CME indicated that the October decrease may not have been as dramatic as a year ago. Mid-November CME prices were about 30 cents below 2 months earlier. Autumn butter prices typically are prone to surprises because of the uncertain balance of very strong demand for milkfat products facing relatively large pipeline stocks. However, prices this year are expected to trend weaker.

The full weight of growing milk supplies probably will be felt after holiday needs are met. Supplies are expected to overcome fairly good demand and lower dairy product prices. Even so, prices are projected to remain relatively robust through the winter. The pattern of winter prices will set the tone for dairy markets during the rest of 2006.

Nonfat dry milk prices are largely independent of other domestic prices because of the overwhelming effects of the international market. Since summer, prices generally have crept higher as they more fully adjusted to the international price. International powder markets appear firm. Although peak seasonal supplies are starting to be available from Southern Hemisphere producers, these exporters reportedly are holding supplies with confidence. Northern Hemisphere exporters have rather limited supplies, even with the expansion in U.S. output. International prices (and correspondingly U.S. prices) are expected to stay fairly strong in coming months.

Sheep/Lamb

Seasonally Stronger DemandTo Strengthen Lamb Prices

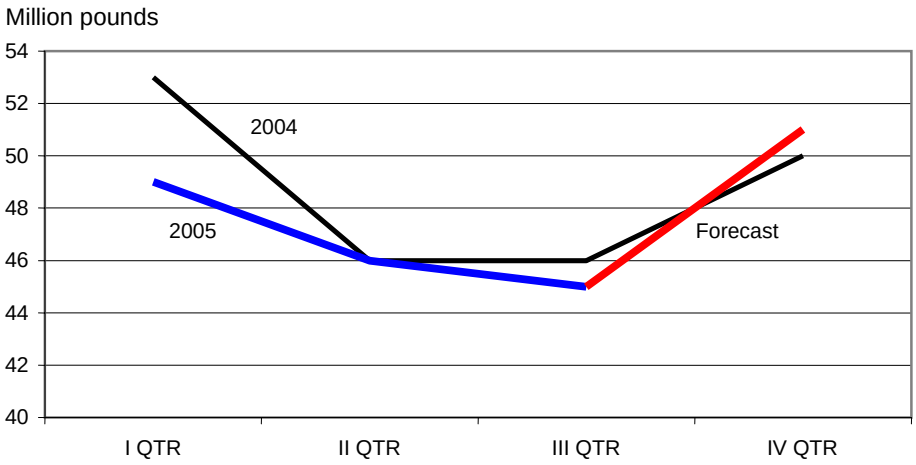
In the third quarter of 2005, commercial production of lamb and mutton totaled 45 million pounds, 2 percent lower than the same period in 2004. Typically, both lamb supply and demand exhibit some seasonality and are lowest during the third quarter each year. As a result, third-quarter 2005 production are at all-time lows. Compounding the lower-than-normal production is the fact that third-quarter imports of live slaughter lambs from Canada are well below its normal range. Slaughter lambs from Canada supplement domestic production, especially during periods of tight supply. In 2002, more than 20,000 live slaughter lambs were imported from Canada in the third quarter. The live imports from Canada were restricted in May 2003 and resumed in July 2005. Third-quarter 2005 live slaughter lamb imports from Canada were 720 head. With the seasonal increase in demand in the fourth-quarter 2005, quarterly production is expected to reach about 51 million pounds for the first time this year. With improved weather conditions and increased ewe-lamb retention for the past 3 years, it is expected that domestic production will begin to increase during the fourth quarter, and increase well into 2006.

As demand softened during the third quarter, so too did slaughter lamb prices. Choice Slaughter lamb prices at San Angelo averaged $106.10 per cwt during the first quarter 2005, but declined steadily throughout the year on seasonally soft demand, averaging $92.90 per cwt in the third quarter. However, the fourth quarter 2005 Choice Slaughter lamb prices at San Angelo are expected to rebound due to the seasonal increases in demand and is forecasted at about $95-97 per cwt.

Imports of lamb and mutton continue to offset production declines. First-half 2005 lamb and mutton imports were 15 percent below the same period last year despite lower domestic production. This suggests that lamb demand was lower than normal during this period. Third-quarter imports came in at nearly 39 million pounds, 18 percent above the same period last year, while fourth-quarter imports are forecasted at around 47 million pounds, nearly 24 percent above the fourth quarter 2004. Third-quarter imports offset the lower third quarter domestic production, and forth-quarter increases are expected to help meet the increasing fourth-quarter demand.

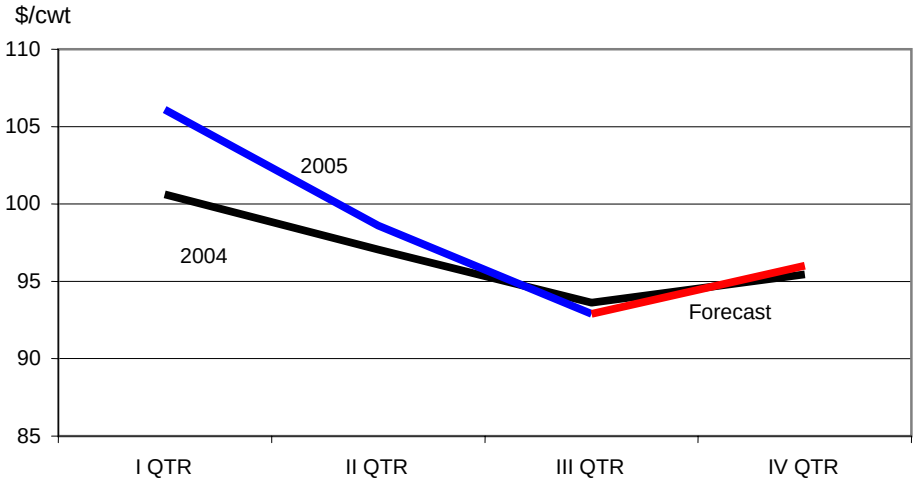
Average retail prices for both domestic and imported lamb have trended upwards since January 2001 and are expected to continue slight upward trends throughout the remainder of 2005 and into 2006. Until January 2004, the average retail price for domestic lamb was slightly higher than the retail price for imported lamb. Since February 2004, the average retail price of imported lamb has consistently been above the average retail price of domestic lamb. Much of this change may be due to the changes in exchange rate value between the United States and Australia and New Zealand.

Quarterly commercial lamb and mutton production, 2004 and 2005



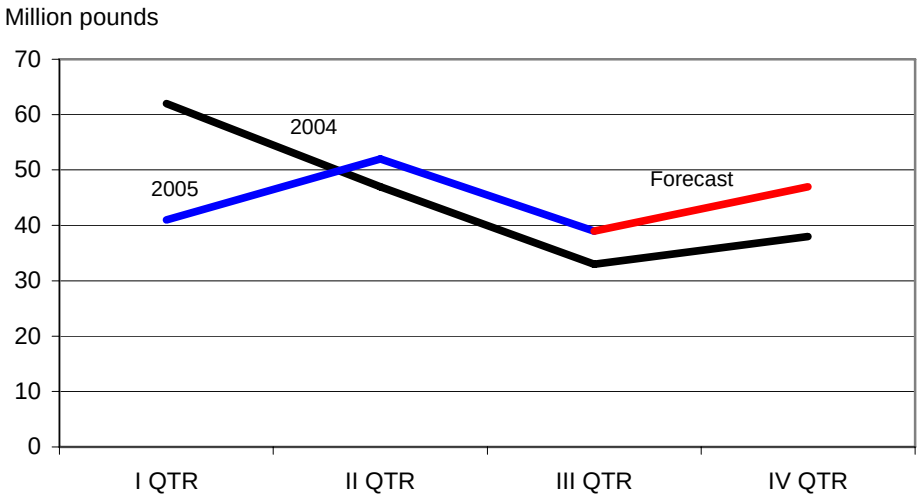
Source: *Livestock Slaughter*, NASS, USDA.

Quarterly price of choice slaughter lambs at San Angelo, 2004 and 2005



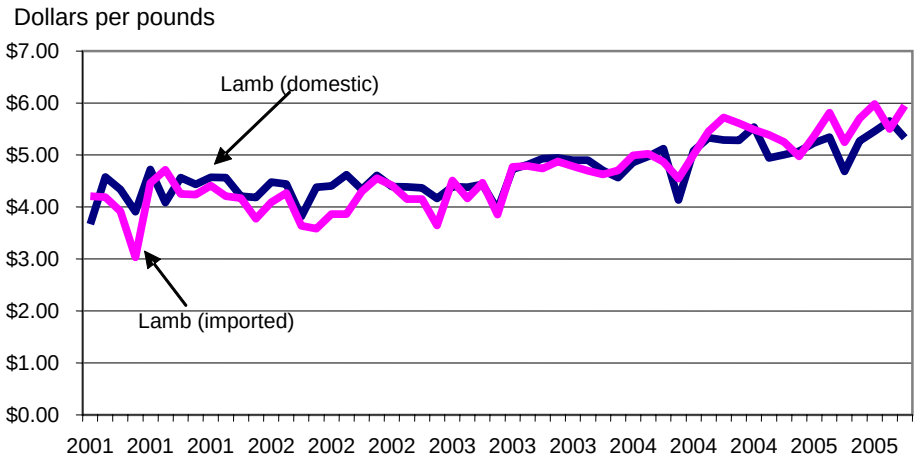
Source: *Livestock Meat and Wool*, AMS, USDA.

Quarterly lamb and mutton Imports, 2004 and 2005



Source: U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics.

Average retail price of domestic versus imported lamb, Jan. 2001 to July 2005



Source: USDA/ERS and Livestock Marketing Information Center.

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Recent Report

Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory Reporting Act, http://www.ers.usda.gov/Publications/LDP/Sep05/ldpm13501/ compares the mandatory price reporting system developed by USDA's Agricultural Marketing Service in 2001 with the previous voluntary reporting system. The trend toward formula purchases has slowed since mandatory price reporting was implemented, and market forces have likely contributed to an increase in the volume of cattle moving under negotiated purchases.

Market Integration of the North American Animal Products Complex, http://www.ers.usda.gov/Publications/ldp/may05/ldpm13101/ The beef, pork, and poultry industries of Mexico, Canada, and the United States have tended to become more economically integrated over the past two decades. Sanitary barriers, which are designed to protect people and animals from diseases, are some of the most significant barriers to fuller integration of meat and animal markets.

Related Websites

Animal Production and Marketing Issues, http://www.ers.usda.gov/briefing/AnimalProducts/
Cattle, http://www.ers.usda.gov/briefing/cattle/
Dairy, http://www.ers.usda.gov/briefing/dairy/
Hogs, http://www.ers.usda.gov/briefing/hogs/
Poultry and Eggs, http://www.ers.usda.gov/briefing/poultry/
WASDE, http://www.usda.gov/oce/waob/wasde/wasde.htm

Red meat and poultry forecasts

	2003	2004				2005					2006				
	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Production, million lb															
Beef	26,238	5,838	6,253	6,360	6,097	24,548	5,727	6,192	6,566	6,200	24,685	5,950	6,700	6,800	25,750
Pork	19,945	5,130	4,897	5,047	5,435	20,509	5,136	5,022	4,999	5,550	20,707	5,200	5,075	5,225	21,125
Lamb and mutton	199	53	46	46	50	195	49	46	45	51	191	51	53	49	205
Broilers	32,749	8,195	8,492	8,839	8,537	34,063	8,571	8,941	8,931	8,750	35,193	8,825	9,125	9,300	36,325
Turkeys	5,650	1,309	1,366	1,390	1,389	5,454	1,320	1,393	1,375	1,410	5,498	1,325	1,395	1,410	5,555
Total red meat & poultry	85,476	20,687	21,220	21,858	21,676	85,441	20,964	21,770	22,086	22,129	86,949	21,520	22,520	22,965	89,666
Table eggs, mil. doz.	6,225	1,556	1,574	1,598	1,637	6,365	1,585	1,580	1,603	1,640	6,408	1,600	1,625	1,640	6,540
Per capita consumption, retail lb 1/															
Beef	64.9	16.0	16.9	16.9	16.3	66.1	15.6	16.8	17.1	16.3	65.9	16	17.6	17.7	67.7
Pork	51.8	13.0	12.2	12.7	13.4	51.3	12.3	12.1	12.3	13	49.7	12.3	12.1	12.6	50.0
Lamb and mutton	1.2	0.3	0.3	0.2	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.3	1.1
Broilers	81.6	20.8	21.2	21.9	20.4	84.3	21.3	21.7	21.3	20.9	85.2	21.4	21.9	22.4	87.0
Turkeys	17.4	3.6	4.0	4.5	5.0	17.1	3.6	3.8	4.1	5.0	16.5	3.4	3.7	3.9	16.1
Total red meat & poultry	218.9	54.1	54.8	56.6	55.9	221.4	53.5	55.2	55.5	55.9	220.1	53.7	56	57.3	223.8
Eggs, number	254.7	63.7	63.9	64.1	65.5	257.2	63.3	62.9	63.9	65.0	255.1	63.2	64.2	64.7	257.9
Market prices															
Choice steers, Neb., $/cwt	84.69	82.16	88.15	83.58	85.09	84.75	89.09	87.96	81.79	84-86	85.96	79-83	79-85	77-83	78-84
Feeder steers, Ok City, $/cwt	89.85	87.98	104.58	116.27	110.19	104.76	104.05	113.36	112	107-109	109.23	96-100	97-103	95-101	96-102
Boning utility cows, S. Falls, $/cwt	46.62	47.50	54.86	56.25	50.78	52.35	54.18	59.17	55.56	52-54	55.42	53-55	53-57	52-56	53-56
Choice slaughter lambs, San Angelo, $/cwt	91.98	100.62	97.06	93.62	95.44	96.69	106.10	98.60	92.60	95-97	98.40	95-99	92-98	90-96	92-98
Barrows & gilts, N. base, l.e. $/cwt	39.45	44.18	54.91	56.58	54.35	52.51	51.92	52.09	50.51	43-45	49.63	45-47	46-50	44-48	44-47
Broilers, 12 City, cents/lb	62.00	73.20	79.30	75.70	68.30	74.10	71.90	72.60	72.10	68-70	71.40	69-73	69-75	70-76	69-74
Turkeys, Eastern, cents/lb	62.10	62.10	66.60	73.10	77.10	69.70	65.90	67.70	76.50	79-81	72.50	63-67	65-71	71-77	69-74
Eggs, New York, cents/doz.	87.90	114.90	79.70	66.20	68.00	82.20	64.50	55.90	66.60	67-69	63.80	63-67	60-64	62-68	63-68
U.S. trade, million lb															
Beef & veal exports	2,518	36	120	138	167	461	130	189	165	145	629	140	170	180	640
Beef & veal imports	3,006	873	929	940	937	3,679	831	1,065	960	890	3,746	895	985	945	3,720
Lamb and mutton imports	168	62	47	34	38	181	41	52	44	47	184	44	47	40	175
Pork exports	1,717	523	546	486	624	2,179	630	699	630	750	2,709	670	705	655	2,785
Pork imports	1,185	275	265	291	268	1,099	245	245	250	245	985	240	235	245	960
Live swine imports	7,438	2,210	2,024	2,196	2,075	8,505	1,894	1,951	2,100	2,100	8,045	2,000	2,000	2,000	8,000
Broiler exports	4,920	1,024	1,008	1,250	1,486	4,768	1,199	1,347	1,410	1,475	5,431	1,285	1,380	1,415	5,595
Turkey exports	484	83	93	134	133	443	126	147	145	160	578	130	150	155	600

1/ Per capita meat and egg consumption data are revised, incorporating a new population series from the Commerce Department's Bureau of Economic Analysis based on the 2000 Census.

Source: World Agricultural Supply and Demand Estimates and Supporting Materials.

For further information, contact: Mildred Haley, (202) 694-5176, mhaley@ers.usda.gov

Economic Indicator Forecasts

	2004			2005					2006			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
GDP, chain wtd (bil. 2000 dol.)	10,809	10,897	10,756	10,999	11,092	11,193	11,282	11,142	11,385	11,477	11,568	11,522
CPI-U, annual rate (pct.)	1.9	3.4	3.4	2.4	4.2	5.1	3.9	3.9	2.4	2.3	2.4	2.4
Unemployment (pct.)	5.4	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.0	4.9	4.9	4.9
Interest (pct.)												
3-month Treasury bill	1.5	2.0	1.4	2.5	2.9	3.4	3.9	3.2	4.3	4.5	4.6	4.5
10-year Treasury bond yield	4.3	4.2	4.3	4.3	4.2	4.2	4.6	4.3	4.9	5.2	5.2	5.1

Source: Survey of Professional Forecasters, Philadelphia Federal Reserve Bank, November 2005.
For further information, contact: Jim Miller 202 694 5184, jjmiller@ers.usda.gov

Dairy Forecasts

	2004			2005					2006			
	III	IV	Annual	I	II	III	IV	Annual	I	II	III	Annual
Milk cows (thous.)	9,027	9,019	9,010	8,996	9,034	9,054	9,070	9,040	9,075	9,090	9110	9,105
Milk per cow (pounds)	4,679	4,655	18,958	4,807	5,054	4,859	4,845	19,565	4,975	5,150	4910	19,935
Milk production (bil. pounds)	42.2	42.0	170.8	43.2	45.7	44.0	43.9	176.8	45.1	46.8	44.7301	181.5
Farm use	0.3	0.3	1.1	0.3	0.3	0.3	0.3	1.1	0.3	0.3	0.275	1.1
Milk marketings	42.0	41.7	169.7	43.0	45.4	43.7	43.7	175.7	44.9	46.5	44.4551	180.4
Milkfat (bil. pounds milk equiv.)												
Milk marketings	42.0	41.7	169.7	43.0	45.4	43.7	43.7	175.7	44.9	46.5	44.4551	180.4
Beginning commercial stocks	11.6	9.9	8.3	7.2	9.4	11.2	9.5	7.2	7.4	10.0	11.5	7.4
Imports	1.0	1.3	5.3	1.3	1.1	1.1	1.3	4.8	1.2	1.2	1.2	4.9
Total supply	54.6	52.9	183.3	51.5	55.9	56.0	54.5	187.7	53.5	57.8	57.1551	192.7
Ending commercial stocks	9.9	7.2	7.2	9.4	11.2	9.5	7.4	7.4	10.0	11.5	9.8	7.5
Net removals	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.005	0.0
Commercial use	44.6	45.7	176.2	42.1	44.7	46.5	47.1	180.3	43.5	46.3	47.3501	185.2
Skim solids (bil. pounds milk equiv.)												
Milk marketings	42.0	41.7	169.7	43.0	45.4	43.7	43.7	175.7	44.9	46.5	44.4551	180.4
Beginning commercial stocks	10.1	9.5	8.5	8.2	8.4	9.6	8.9	8.2	8.0	8.5	9.85	8.0
Imports	1.1	1.3	4.8	1.2	1.0	1.2	1.4	4.8	1.0	1.3	1.125	4.8
Total supply	53.2	52.5	183.0	52.3	54.9	54.5	54.0	188.7	53.9	56.2	55.4301	193.2
Ending commercial stocks	9.5	8.2	8.2	8.4	9.6	8.9	8.0	8.0	8.5	9.9	9.1	8.2
Net removals	0.4	0.0	1.3	-0.4	-0.3	-0.2	-0.1	-1.0	-0.1	0.2	0.3301	0.8
Commercial use	43.3	44.3	173.5	44.3	45.6	45.8	46.1	181.8	45.5	46.2	46	184.2
Milk prices (dol./cwt) 1/												
All milk	15.50	16.07	16.05	15.67	14.83	14.90	15.15	15.15	14.05	12.70	12.60	13.15
							-15.45	-15.25	-14.65	-13.60	-13.60	-14.05
Class III	14.54	15.06	15.39	14.31	14.10	14.08	13.50	14.00	12.45	11.60	11.65	11.85
							-13.80	-14.10	-13.05	-12.50	-12.65	-12.75
Class IV	12.92	13.19	13.20	12.64	12.38	13.45	12.95	12.80	12.15	11.30	11.00	11.35
							-13.35	-13.00	-12.85	-12.30	-12.10	-12.35
Product prices (dol./pound) 2/												
Cheddar cheese	1.558	1.610	1.643	1.531	1.507	1.481	1.420	1.485	1.330	1.260	1.270	1.285
							-1.450	-1.495	-1.390	-1.350	-1.370	-1.375
Dry whey	0.234	0.235	0.232	0.248	0.263	0.287	0.285	0.270	0.260	0.235	0.225	0.235
							-0.305	-0.280	-0.290	-0.265	-0.255	-0.265
Butter	1.722	1.778	1.824	1.570	1.459	1.646	1.510	1.540	1.370	1.275	1.280	1.305
							-1.570	-1.570	-1.460	-1.395	-1.410	-1.425
Nonfat dry milk	0.858	0.862	0.841	0.899	0.923	0.957	0.960	0.930	0.930	0.880	0.850	0.875
							-0.990	-0.950	-0.980	-0.950	-0.920	-0.945

1/ Simple averages of monthly prices. May not match reported annual averages.
2/ Simple averages of monthly prices calculated by the Agricultural Marketing Service for use in class price formulas. 'Based on weekly "Dairy Product Prices", National Agricultural Statistics Service. Details may be found at http://www.ams.usda.gov/dyfmos/mib/fedordprc_dscrp.htm

Source: World Agricultural Supply and Demand Estimates and supporting materials.
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